

CITY AUDITOR'S OFFICE



INTERNAL CONTROL REVIEW ACTIVITY REPORT DECEMBER 31, 2006

Report No. CAO 2900-0607-08

March 30, 2007

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CITY AUDITOR

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BACKGROUND

The City Auditor's Office has the responsibility to Evaluate, Enhance, Educate, and Enforce internal control issues that come to the Office's attention.

- **Evaluate** - The Office independently and objectively performs Internal Control Reviews to evaluate applicable internal controls through professional expertise and judgment.
- **Enhance** - After evaluation, the Office makes recommendations to enhance the adequacy and effectiveness of existing controls and further recommends additional controls as appropriate.
- **Educate** - Through the Internal Control Review Memorandums to management and the periodic *Internal Control Review Activity Reports*, the Office educates management and others of appropriate internal controls.
- **Enforce** - Enforcement is limited to supplying data to management to help them enforce the policies and procedures of the City.

The results of the Internal Control Reviews are reported in two steps:

- An Internal Control Review Memorandum is released to the appropriate levels of management and the Mayor and City Council. This Memorandum assists management in the timely correction of control deficiencies.
- Semiannually, a summary report is made of all findings and recommendations from the Internal Control Review Memorandums and released in a formal *Internal Control Review Activity Report*.

This report summarizes the Internal Control Review Memorandums issued since the last *Internal Control Review Activity Report* (June 30, 2006), including findings, recommendations, and management responses. The recommendations are included in the follow-up system for tracking purposes.

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OBJECTIVES

Our objectives in completing the *Internal Control Review Activity Report* are to:

- Review all activity for the period noted relative to internal control reviews;
- Document for tracking purposes findings and recommendations noted in Internal Control Review Memorandums; and
- Report to the public the results of activities of the City Auditor's Office.

The objectives of each of the Internal Control Reviews were to:

- Determine the adequacy of existing internal controls;
- Determine the reason(s) for any control failure;
- Recommend corrective action; and
- Report the results of our review.

SCOPE AND METHODOLOGY

Fieldwork performed during each of the Internal Control Reviews was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- Observing operations.
- Interviewing personnel.
- Reviewing records, reports, and other applicable documentation.

INTERNAL CONTROL MEMORANDUMS ISSUED

ICR 028 Internal Control Review: Neighborhood Services EVOLVE Gift Card Issue

Background

It came to the attention of the City Auditor's Office that a City of Las Vegas employee was purchasing a large number of gift cards on their P-Card for Home Depot and Wal-Mart. Upon investigation, these gift cards were purchased for the City's EVOLVE program for ex-offenders. The City Auditor's Office proceeded to perform an Internal Control Review of the EVOLVE gift card program.

Findings and Conclusions

The EVOLVE Policies and Procedures states, "A gift card may be issued to the clients on an as needed basis." It further states, "The client must provide a receipt for all purchases made which total the assistance amount." When given a gift card, the client signs a form stating he will return the receipts within 10 days. Upon examining the records of the recipients of 35 of the cards, we found that no receipts had been returned for 22 of the cards.

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Recommendation

EVOLVE should change their Policies and Procedures to include:

Issue a self addressed stamped envelope with the gift card for the purpose of returning either the receipts or the unused gift card.

ICR 033 Internal Control Review: Becker Community School – Missing Deposit

Background

On Friday, June 2, 2006, the Assistant Site Leader for Lummis Safekey went to Becker Community School to drop that day's deposit of \$706 (\$142 cash and \$564 in checks). She faxed the necessary paperwork over to Finance and signed the deposit log confirming that she had dropped the deposit in the safe. The Recreation Leader from Becker also signed the log confirming that she had witnessed the deposit being dropped. When the Recreation Leader went to collect all of the deposits from the safe later that evening, she discovered the deposit from Lummis was not in the safe. After thoroughly searching for it, the deposit was never found. The City Auditor's Office subsequently completed an Internal Control Review of this incident.

Findings/Conclusions

Upon investigation, it was discovered that no one actually saw the Lummis Assistant Site Leader bring the deposit bag into Becker Community School. The Assistant Site Leader signed the log but does not recall dropping the deposit into the safe. She does recall setting the deposit on one of the desks. The Becker Recreation Leader admits that even though she signed the log, she did not actually witness the deposit being dropped into the safe, as required by procedure. The Recreation Leader searched everywhere the deposit could have accidentally been dropped and reviewed the surveillance tape from a camera in the parking lot. The tape showed the Assistant Site Leader but the deposit could not be seen at the angle the camera was set. There was no surveillance camera inside Becker Community School. Neither the Lummis Assistant Site Leader nor the Becker Recreation Leader followed the Safekey Cash Handling Procedures written for the Community Schools.

Recommendations

1. Leisure Services needs to change the Safekey Cash Handling Procedures for the Community Schools. It should state that the Safekey employee is responsible for dropping the deposit into the safe while the Community School employee witnesses the drop. Only then should they both sign the deposit log. The Safekey employee should not drop the deposit in the safe without a Community School employee present to act as a witness.
2. The Director of Leisure Services should request that Detention & Enforcement complete an evaluation of the feasibility of installing surveillance cameras at Safekey drop sites. At a minimum, these cameras should be installed and positioned to record the dropping of the deposits.

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**MANAGEMENT RESPONSES
TO
INTERNAL CONTROL REVIEW ACTIVITY REPORT**

1. ICR 028 Internal Control Review: Neighborhood Services EVOLVE Gift Card Issue

Recommendation: EVOLVE should change their Policies and Procedures to include:
Providing a self addressed stamped envelope with the gift card for the purpose of returning either the receipts or the unused gift card.

Management Response: The Neighborhood Services Department/EVOLVE center will immediately implement the City Auditor's recommendation to include "issuing a self addressed stamped envelope with the gift card for the purpose of returning either the receipts or the unused gift cards" to the center. The EVOLVE center will also take an additional step to ensure that receipts or unused gift cards are returned:

Internal Control Review/Field Search – The Quality Assurance Specialist (QAS) as part of EVOLVE's internal control process will add to the scope of her duties, the regular review of gift card logs to determine if receipts or unused cards have been returned in accordance with appropriate policies and procedures. In instances where the receipts have not been returned, in accordance with policies and procedures, the QAS will tell the Guidance Specialist to conduct a field search to assist with retrieving unused cards or receipts.

Estimated Date of Completion:

EVOLVE Policy Change - 7/30/2006

Quality Assurance Review - 7/10/2006 (Implementation Date)

2. ICR 033 Internal Control Review: Becker Community School – Missing Deposit

Recommendation 1: Leisure Services need to change the Safekey Cash Handling Procedures for the Community Schools. It should state that the Safekey employee is responsible for dropping the deposit into the safe while the Community School employee witnesses the drop. Only then, should they both sign the deposit log. The Safekey employee should not drop the deposit in the safe without a Community School employee present to act as a witness.

Management Response: Agree with the recommendation. The Safekey & Community School/Center Cash Handling Procedures will be changed to reflect the recommendation. All full-time and hourly staff will receive notification regarding this change. The City Auditor's Office will also be copied in the communication.

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Estimated Date of Completion: 11/1/2006

Recommendation 2: The Director of Leisure Services should request that Detention & Enforcement complete an evaluation of the feasibility of installing surveillance cameras at Safekey drop sites. At a minimum, these cameras should be installed and positioned to record the dropping of the deposits.

Management Response: Agree with the recommendation. I will meet with Detention & Enforcement regarding possible installation of surveillance camera equipment at all Community School and Community Center locations within the City of Las Vegas.

Estimated Date of Completion: 11/1/2006